

# **State of Alaska FY2009 Governor's Operating Budget**

## **Department of Transportation/Public Facilities Marine Highway System Results Delivery Unit Budget Summary**

## Marine Highway System Results Delivery Unit

### Contribution to Department's Mission

Provide safe, secure, reliable and efficient transportation of people, goods and vehicles through the Alaska Marine Highway System by developing and implementing sound policy and procedures for operations, and staffing with well trained professionals who are sensitive to the needs of our customers.

### Core Services

The Alaska Marine Highway System (AMHS) operates 11 roll-on/roll-off passenger ships during the summer season and as few as 4 ships during the fall, winter and spring season. Weeks of operation are tailored to meet the needs of the traveling public and communities while maximizing revenue and minimizing costs.

AMHS constantly maintains, repairs, refurbishes, and upgrades its vessels and terminal facilities. Hard use in a marine environment and the stringent regulations (state, federal, and international) governing passenger-carrying marine vessels determine the need for these activities.

Operations services provided:

- Transport of people, goods and vehicles to and from 32 ports along 3,500 route miles from Bellingham, Washington, through Southeast Alaska, across the Gulf of Alaska to Prince William Sound and South Central Alaska, to Kodiak Island, the Alaskan Peninsula and out the Aleutian Island chain to Unalaska.
- 16 state-owned terminals and their staff provide shelter and book passage for an average of over 300,000 passengers and stage over 90,000 vehicles per year aboard AMHS vessels.
- 776 shipboard employees crew AMHS vessels based upon U.S. Coast Guard (USCG) requirements and 164 shore side employees including terminal operators provide support to the vessels and crew.
- Implement a standardized International Safety Management (ISM) certification safety program to maintain proficiency in the AMHS fleet and meet International Maritime Organization (IMO) requirements.
- Provide quality service to every customer.
- Complete required annual overhaul, maintenance and inspection requirements in conjunction with USCG, and classification entities.
- Implement Maritime Transportation Security Act (MTSA) guidelines, this includes staff training and infrastructure changes. MTSA is a federal security agency comparable to Transportation Security Administration (TSA), applicable to maritime transportation.
- Certify all shipboard employees under the Standards for Training, Certification, and Watch-keeping for Seafarers (STCW) program.
- Certify Fast Vehicle Ferry (FVF) crews under the International High Speed Code requirements.

The maintenance, repair, refurbishment, and upgrading services provided are to:

- Conduct the surveys, assessments, detailed preliminary engineering, cost estimating, long-range planning, and design for federally funded vessel modernization projects included in the departments needs list and ultimately the State Transportation Improvement Program.
- Initiate, administer, and provide on-site shipyard oversight of contracts for vessel modernization projects.

- Plan and provide preventive maintenance and repair of 16 terminal facilities.
- Purchase support services and goods for the necessary annual overhaul of each vessel.

End Result	Strategies to Achieve End Result
<b>A: Improve mobility of people and goods.</b> <u>Target #1:</u> Meet or exceed 95% satisfied customers with AMHS reliability, convenience and efficiency. <u>Measure #1:</u> Percent satisfied AMHS customers based upon user surveys.	<b>A1: Provide reliable, convenient and efficient service on the AMHS.</b> <u>Target #1:</u> Meet or exceed industry standard for on-time departures. <u>Measure #1:</u> Percent of on-time departures compared to total departures.  <u>Target #2:</u> Increase the frequency of port calls by 5% from the prior year. <u>Measure #2:</u> Percent change in number of port calls as compared to prior year.
End Result	Strategies to Achieve End Result
<b>B: Improve AMHS performance.</b> <u>Target #1:</u> Increase the ratio of revenue per rider mile to the cost per rider mile by 2%. <u>Measure #1:</u> Percent change in revenue per rider mile to cost per rider mile.	<b>B1: Increase AMHS revenues.</b> <u>Target #1:</u> Increase onboard sales per passenger by 5% over the previous 3-year average. <u>Measure #1:</u> Onboard sales per passenger compared to average of previous 3 years.  <u>Target #2:</u> Increase passenger capacity utilization by 3%. <u>Measure #2:</u> Percent change in passenger capacity utilization compared to a 3-year average.

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> <li>• Design, procure and employ lighter, faster vessels</li> <li>• Implement a ticket scanning system</li> <li>• Develop separate and secure staging areas of passenger loading</li> <li>• Optimize schedules</li> <li>• Lease space to private providers</li> <li>• Utilize lease vessels when doing so reduces costs</li> <li>• Provide end-of-road terminal and shuttle service</li> <li>• Develop alternative vessels</li> </ul>	<ul style="list-style-type: none"> <li>• Develop terminal prototypes for construction</li> <li>• Ensure compliance with Shephard Act</li> <li>• Provide access to shore excursion businesses</li> <li>• Review organizational structure</li> <li>• Improve fuel efficiency through use of new technology</li> <li>• Develop vessels that take advantage of state-of-the-art technology</li> <li>• Develop lay-up berths and facilities</li> <li>• Analyze AMHS activities to identify cost savings</li> </ul>

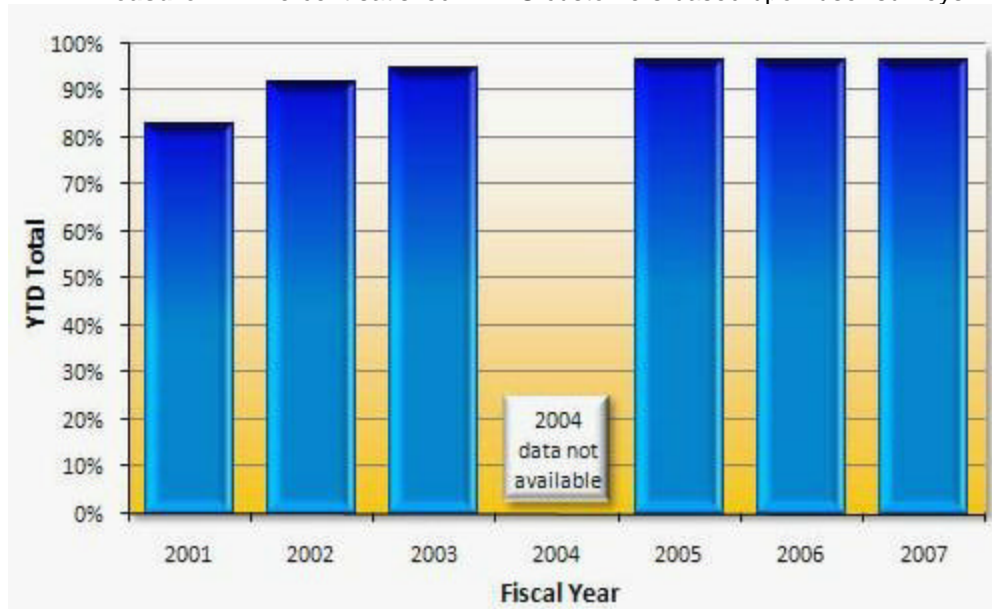
FY2009 Resources Allocated to Achieve Results	
FY2009 Results Delivery Unit Budget: \$120,686,000	<b>Personnel:</b>
	Full time 843
	Part time 93
	<b>Total</b> 936

## Performance Measure Detail

### A: Result - Improve mobility of people and goods.

**Target #1:** Meet or exceed 95% satisfied customers with AMHS reliability, convenience and efficiency.

**Measure #1:** Percent satisfied AMHS customers based upon user surveys.

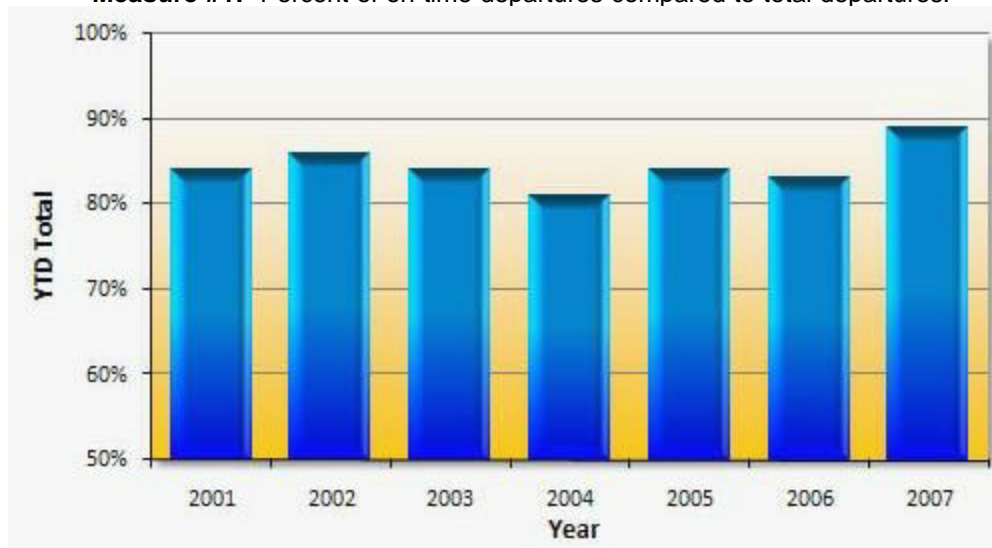


**Analysis of results and challenges:** Independent surveys are conducted onboard AMHS vessels at various points throughout the summer season. Passengers are asked to rate a variety of aspects relative to their AMHS experience. The survey data is summarized and the results are presented to AMHS management.

### A1: Strategy - Provide reliable, convenient and efficient service on the AMHS.

**Target #1:** Meet or exceed industry standard for on-time departures.

**Measure #1:** Percent of on-time departures compared to total departures.



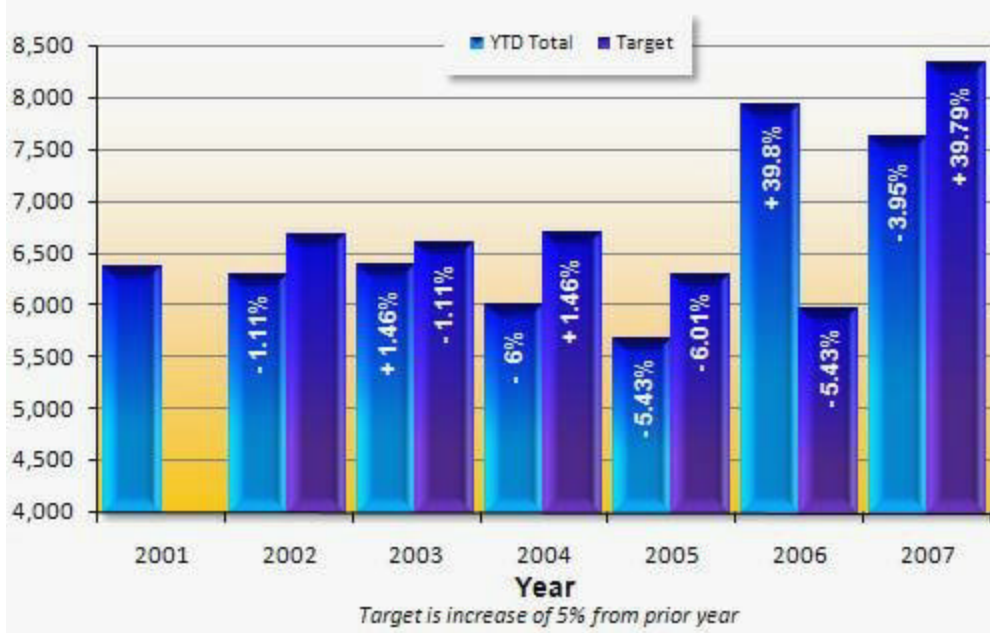
**Analysis of results and challenges:** The target is for the Alaska Marine Highway System (AMHS) to consistently exceed the on-time airline departure benchmark of 75.1%. An on-time ferry departure is within 30 minutes of the scheduled departure time.

Numerous events can cause delays in ferry departure times, especially weather and tides. An additional

relevant factor is the time it takes to load/unload large and/or low slung vehicles (RV's, trucks w/trailers, heavy equipment) during busy periods. Most of these factors are out of the control of AMHS. Nevertheless, making schedule modifications in the event of continual and systematic delays are within the Department's control.

**Target #2:** Increase the frequency of port calls by 5% from the prior year.

**Measure #2:** Percent change in number of port calls as compared to prior year.

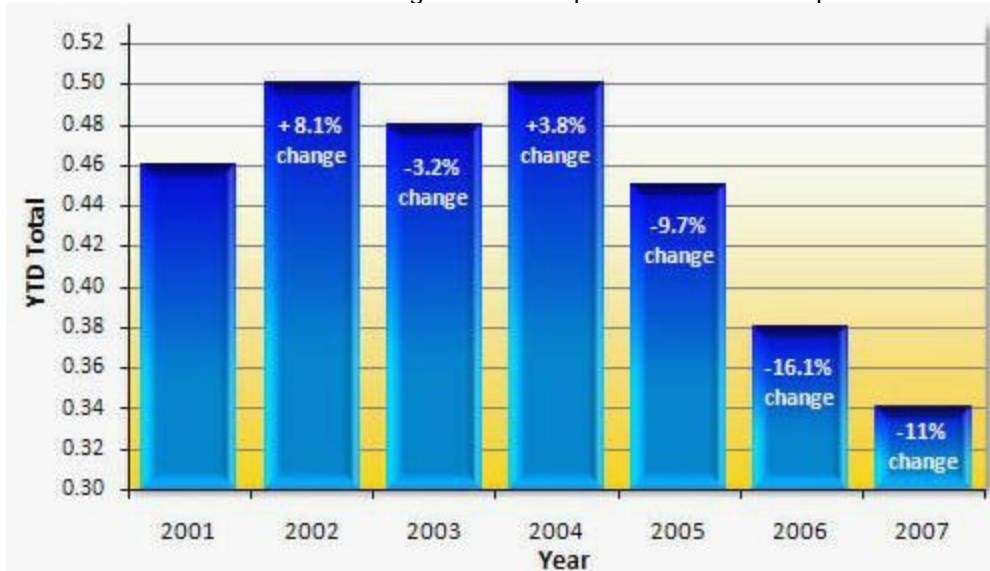


**Analysis of results and challenges:** This measure reflects the service level provided to communities dependent upon the Marine Highway. Although fiscal year 2007 showed an overall increase in total operating weeks, a slight decrease was noted in the port calls to the communities due to the extended layup and overhaul periods of the M/V's Columbia, Malaspina, Taku and the FVF Chenega that serve these communities.

## B: Result - Improve AMHS performance.

**Target #1:** Increase the ratio of revenue per rider mile to the cost per rider mile by 2%.

**Measure #1:** Percent change in revenue per rider mile to cost per rider mile.



**Analysis of results and challenges:** Fiscal year 2007 saw 3 major areas of service cost increases which brought the referenced ratio into a negative trend from the previous year. Vessel employees received a 6% increase from the previous year. Fuel prices continued up an additional 6% over the previous year and the PERS

rate increased 30% over the previous year.

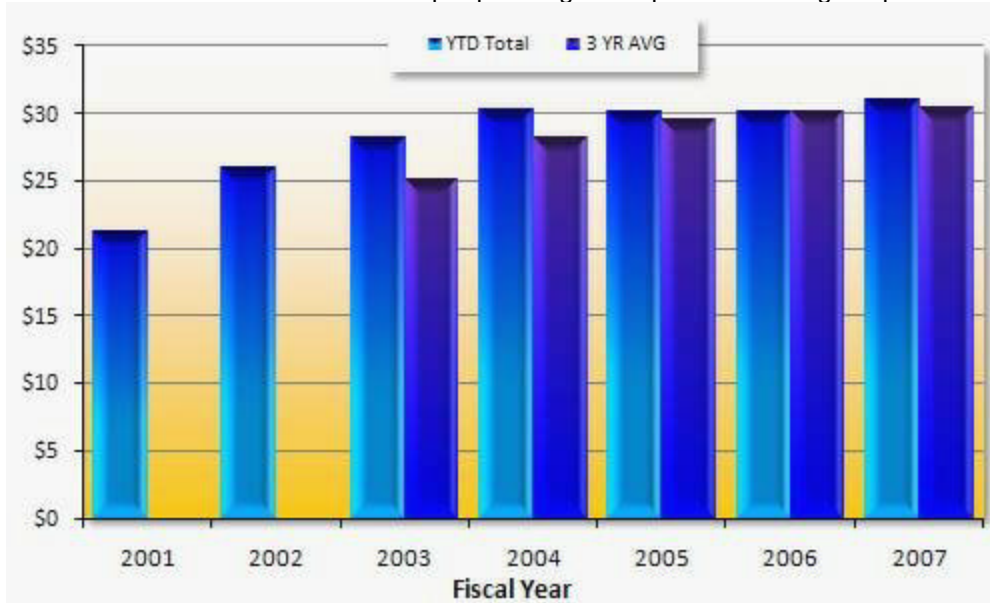
AMHS continued to see increased ridership as passenger and vehicle count were up 6% and 9% respectively but earned revenue was behind last years pace primarily from a mid season breakdown of the Columbia which required extended yard time for repairs. AMHS put in place a 3.2% tariff increase commencing with FY 2008.

AMHS is in the process of upgrading the fleet with the addition of 2 new shuttle ferries. These 2 new boats named the South East Shuttle and the Gateway Shuttle are being designed to provide day boat service to North Lynn Canal and between Ketchikan and Prince Rupert respectively. These vessels are being designed to be very economical and will provide for more efficient scheduling in high volume areas. In turn these new vessels will allow for increased efficiencies through greater asset utilization.

### B1: Strategy - Increase AMHS revenues.

**Target #1:** Increase onboard sales per passenger by 5% over the previous 3-year average.

**Measure #1:** Onboard sales per passenger compared to average of previous 3 years.

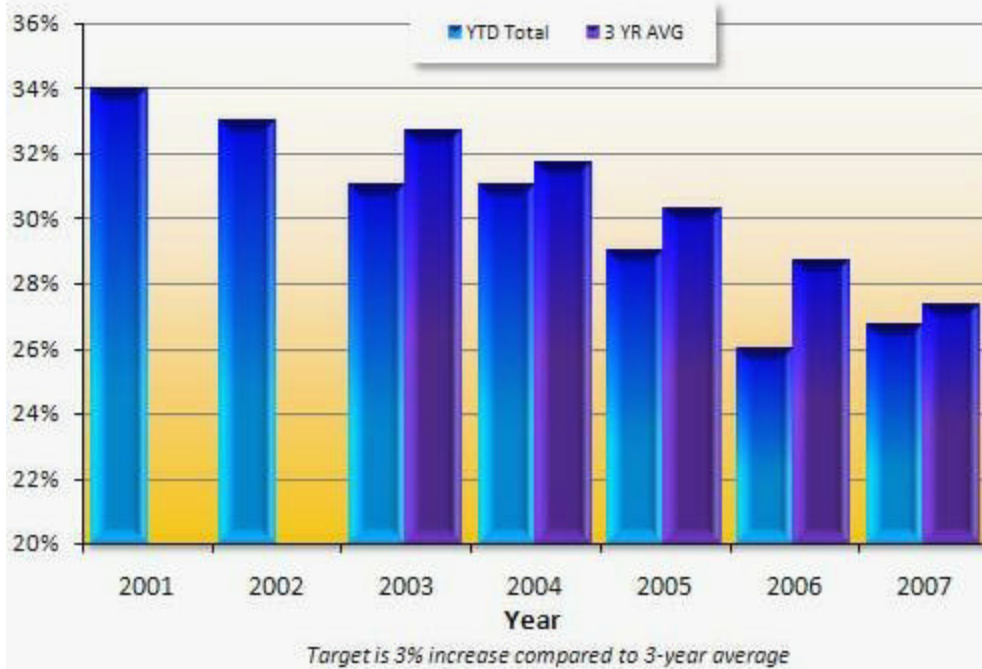


**Analysis of results and challenges:** AMHS continues to look at increasing ship board generated revenues. At the beginning of fiscal year 08 a 3.2% increase was placed on staterooms to reflect the market demand of these ship board services. In the previous fiscal year sales revenue increases were seen in all the passenger service area revenue streams as compared to the previous year.

In 2007 AMHS brought the M/V Malaspina online with 24/7 ship board wireless internet facilities for the traveling public. The Tustumena was previously outfitted. It is the intention of AMHS to add wireless internet to the Aurora and Columbia in FY 08.

**Target #2:** Increase passenger capacity utilization by 3%.

**Measure #2:** Percent change in passenger capacity utilization compared to a 3-year average.



**Analysis of results and challenges:** The analysis converts capacity data into passenger miles by taking the sum of each trip's passenger capacity and multiplying it by the distance the ship travels. This produces the capacity number.

Next, the analysis considers the actual sum of passengers that were on board and multiplies that number by the distance they traveled. This produces the utilized number. Finally, the utilized number is divided by the capacity number to produce the utilization percentage.

With capacity utilization on a down trend the system has reached price resistance. New promotional specials and round trip discounts are being implemented in attempt to gain back rider-ship and reverse the capacity utilization trends.

## Key RDU Challenges

As the cost of providing service has increased, primarily due to negotiated wage increases, pension cost increases as well as escalating fuel expense, the ability to successfully pass these increases onto the traveling public has been very problematic.

AMHS is in the process of designing two "shuttle boat" ferries which are intended to replace two of the older vessels in the fleet. These new additions are designed to reduce costs and provide greater fleet wide flexibility in their use thus increasing revenue per rider mile while reducing operating expenses per rider mile.

AMHS continues to evaluate the total cost of providing service in addition to fostering a focused marketing campaign to continue to increase rider-ship and revenues.

As the fleet vessels age, challenges include additional maintenance requirements, and possible reductions in both state and federal funding to accomplish the increasing maintenance. The combination of reduced funding and increasing maintenance demands, and the possibility of no new construction, will be the systems greatest challenge going into the future.

## Significant Changes in Results to be Delivered in FY2009

The Alaska Marine Highway System operating plan must be developed based on anticipated system revenues, general

fund subsidies, and the AMHS fund balance. Budget requests will allow continued year round safe, reliable and efficient transportation of people, goods and vehicles on the Alaska Marine Highway.

Cost saving measures have been pursued aggressively to decrease the impact of transportation services provided to Alaskans and visitors to the state.

## Major RDU Accomplishments in 2007

- Kept up to eleven AMHS vessels crewed and in service by completing annual overhauls and meeting federal certification requirements.
- Maintained the ISM Code program certification required for AMHS vessels to visit Canadian ports. AMHS is the only U.S. flag, vehicle-passenger vessel fleet with overnight accommodations to have earned this certification. This certification has become the safety standard for the entire AMHS fleet.
- Successfully trained all vessel employees to the highest international standards of basic safety training and ship familiarization set by federal STCW requirements.
- Successfully maintained qualified officers to operate the fast ferries under the International High Speed Code.
- Maintained AMHS vessels through a combination of federally funded and state funded overhauls. State overhauls were conducted in both Ketchikan and Seward, Alaska.
- Met the federal and international safety requirements for accountability of passengers.
- Terminal facilities were kept safely and reliably operating.
- Continued a proactive and aggressive marketing effort. For example, round trip discounts were offered during the winter months to stimulate ridership during that historically slow time of the year.
- Increased both passenger and vehicle ridership numbers in 2007.
- Continued to work with the Marine Transportation Advisory Board, relying on their input regarding AMHS operations and long-range planning of the System.

### Contact Information

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**Marine Highway System  
RDU Financial Summary by Component**

*All dollars shown in thousands*

	<b>FY2007 Actuals</b>				<b>FY2008 Management Plan</b>				<b>FY2009 Governor</b>			
	<b>General Funds</b>	<b>Federal Funds</b>	<b>Other Funds</b>	<b>Total Funds</b>	<b>General Funds</b>	<b>Federal Funds</b>	<b>Other Funds</b>	<b>Total Funds</b>	<b>General Funds</b>	<b>Federal Funds</b>	<b>Other Funds</b>	<b>Total Funds</b>
<b>Formula</b>												
<b>Expenditures</b>												
None.												
<b>Non-Formula</b>												
<b>Expenditures</b>												
Marine Vessel Operations	97,159.2	0.0	31,398.2	128,557.4	74,092.5	0.0	36,442.2	110,534.7	71,236.4	0.0	31,603.6	102,840.0
Marine Engineering Overhaul	0.0	0.0	2,611.2	2,611.2	0.0	0.0	2,996.4	2,996.4	0.0	0.0	3,082.2	3,082.2
Reservations and Marketing	0.0	0.0	1,652.9	1,652.9	0.0	0.0	1,698.4	1,698.4	0.0	0.0	1,698.4	1,698.4
Marine Shore Operations	700.0	0.0	1,746.1	2,446.1	700.0	0.0	2,236.9	2,936.9	700.0	0.0	2,311.9	3,011.9
Vessel Operations Management	0.0	0.0	5,818.4	5,818.4	0.0	0.0	6,323.1	6,323.1	0.0	0.0	6,550.9	6,550.9
	0.0	0.0	3,243.8	3,243.8	0.0	0.0	3,376.7	3,376.7	0.0	0.0	3,502.6	3,502.6
<b>Totals</b>	<b>97,859.2</b>	<b>0.0</b>	<b>46,470.6</b>	<b>144,329.8</b>	<b>74,792.5</b>	<b>0.0</b>	<b>53,073.7</b>	<b>127,866.2</b>	<b>71,936.4</b>	<b>0.0</b>	<b>48,749.6</b>	<b>120,686.0</b>

**Marine Highway System  
Summary of RDU Budget Changes by Component  
From FY2008 Management Plan to FY2009 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2008 Management Plan</b>	<b>74,792.5</b>	<b>0.0</b>	<b>53,073.7</b>	<b>127,866.2</b>
<b>Adjustments which will continue current level of service:</b>				
-Marine Vessel Operations	-7,473.7	0.0	-438.6	-7,912.3
-Marine Engineering	0.0	0.0	85.8	85.8
-Reservations and Marketing	0.0	0.0	75.0	75.0
-Marine Shore Operations	0.0	0.0	227.8	227.8
-Vessel Operations Management	0.0	0.0	125.9	125.9
<b>Proposed budget increases:</b>				
-Marine Vessel Operations	4,617.6	0.0	-4,400.0	217.6
<b>FY2009 Governor</b>	<b>71,936.4</b>	<b>0.0</b>	<b>48,749.6</b>	<b>120,686.0</b>